



COUNTY OF LOS ANGELES

Internal Services Department

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To enrich lives through effective and caring service.

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To: Each Supervisor

From: Dave Lambertson 
Interim Director

Subject: **ENERGY UPDATE REPORT**

ISD periodically updates your Board on the County's ongoing energy management activities. This update provides status on the County's settlement with El Paso Corporation (El Paso) and ongoing litigation, a report on the State's current energy supply and demand status, and current ISD activities in regulatory proceedings.

Natural Gas Settlement with El Paso, Ongoing Litigation

On June 23, 2004, the County received its monetary recovery under the antitrust lawsuit settlement with El Paso Natural Gas Company. The County's net monetary recovery was \$11,544,100. The County's gross recovery, including interest, totaled \$13,700,856. This amount was reduced by attorneys' fees and costs. On June 28, 2004, the County received an additional \$150,000 to recover its attorneys' fees and costs for the County's participation in a lawsuit against El Paso at the Federal Energy Regulatory Commission.

The County's natural gas antitrust lawsuit is still proceeding against Southern California Gas Company (SCG), San Diego Gas & Electric (SDG&E) and Sempra (the parent corporation of both SCG and SDG&E). The trial date is scheduled for September 7, 2004.

Statewide Energy Situation

A new record for electricity usage in California was reached on August 11, 2004. Power demand peaked that day at 44,497 megawatts, topping the 44,360 megawatt record reached several weeks earlier on July 21, 2004. A megawatt powers about 1,000 homes.

Grid operators expect the record will be broken again later in the summer if temperatures remain high. Although electricity grid officials are not expecting planned, or rotating outages, they continue to urge consumers to avoid unnecessary power use during the late afternoon when demand peaks.

On July 29, 2004 Governor Schwarzenegger issued Executive Order S-12-04 in response to the record energy usage in the State. The Order requires State agencies to implement a variety of energy conservation measures. These include the implementation of a comprehensive communications strategy between State agencies and utilities under electrical emergencies and the pursuit of cost effective energy conservation measures in State agency facilities.

For Los Angeles County, the activities referenced in the Executive Order related to coordination and communications with utilities have been previously established through the following documents:

- "Concept of Operations – Power Outages," November 13, 2001, prepared by the County Office of Emergency Management (re-submitted to all County departments on July 26, 2002).
- "County of Los Angeles, Power Outage Contingency Guidelines," prepared by the County Office of Emergency Management, Department of Human Resources, Office of Public Safety, ISD, CAO-Intergovernmental Relations Section, and the Chief Information Officer.
- "Los Angeles County's Response To Large Scale Power Outage," September 19, 2003, prepared by the CAO, ISD, Health Services, Public Works, Fire, Sheriff (per Board Motion on August 19, 2003 requiring a report on the County's ability to respond to a large-scale power outage).

In support of the State's efforts, ISD will reinstate its Major Energy Users Group meetings. These meetings will focus on updating department energy representatives on energy efficiency measures, the State's energy supply and demand situation, current and planned energy projects coordinated by ISD, and use of ISD's Internet based energy management information system. Energy conservation measures developed by ISD in response to the State energy crisis in 2000-01 are still applicable and will be discussed at these meetings.

SCE Regulatory Proceedings

ISD, on behalf of the County, will participate in SCE's Long Term Procurement Plan Proceeding at the California Public Utilities Commission (CPUC). This proceeding will determine how SCE will conduct its long-term energy purchasing strategies and will include ongoing issues related to administration and development of energy efficiency programs, treatment of Community Choice Aggregation customers, and a variety of other energy related issues. ISD submitted testimony in this proceeding on August 6, 2004.

In the testimony, ISD provided a rationale that supports a stable, long-term funding source for ongoing and planned energy projects throughout the County. ISD also highlighted the importance of studying the need for a centralized, regional energy office model that would support energy efficiency projects and energy management for local governments and public agencies in Los Angeles County. In addition, ISD stated its intent to protect the financial viability of the Pitchess Cogeneration plant by fighting any proposals that would reduce plant revenues.

In a separate CPUC proceeding, SCE was recently granted a \$73 million per year rate increase to upgrade its transmission and distribution systems and enhance customer services. This increase was granted under Phase 1 of SCE's General Rate Case. The increase amounts to an average customer increase of about 1%. The actual allocation of this increase to specific customer classes will be determined in Phase 2 of the General Rate Case later this fall. It is expected that medium and large commercial customers will not see any increases as a result of this action by the CPUC.

Energy Legislation – AB2006 (Nunez)

AB2006 would put SCE back into the power plant business by allowing them (and other investor owned utilities) to re-acquire generation resources and enter into long-term contracts with other generators in order to secure reliable supplies for customers they serve. The bill's original language allowed for some degree of customer choice beginning in 2005. Large customers (greater than 500kW demand) would have the opportunity to buy energy from third parties. This category of customers would include the County's 40 largest accounts in SCE territory representing nearly half of the County's total payments to SCE.

AB2006 has won approval from the full Assembly and the Senate Energy and Utilities Committee. The bill is now scheduled for review by the Senate Appropriations Committee. However, the customer choice provisions of the original bill have been removed under heavy lobbying from consumer groups. They are concerned that large businesses would leave the utilities and cause small businesses and residential consumers to pay for new plant and power line construction and the ongoing costs of the State's 2000-01 electricity crisis.

On August 11, 2004 Governor Schwarzenegger's office indicated their disapproval of the removal of customer choice from AB2006 in a letter to the energy bill's author, Assembly Speaker Fabian Nuñez (D-Los Angeles). The formal opposition from the Governor's office immediately followed the surprise move by Assemblyman Nuñez to strip the energy bill of the key customer choice element that has been consistently backed by Schwarzenegger but opposed by consumer groups. This is viewed by some

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as a signal that the Governor may veto any version of AB2006 that does not include some form of competitive retail markets.

Community Choice Aggregation (CCA)

The County continues to participate in this proceeding at the CPUC, which will establish the rules and regulations for CCA. CCA allows local governments, cities and counties (Aggregators) to purchase and sell electricity on behalf of utility customers in their jurisdictions. Aggregators may also receive funding to implement energy programs.

Testimony in the proceeding by interested Aggregators has been coordinated by the Local Government Commission. Technical studies to determine the financial viability of purchasing energy from other than the utilities is being conducted by Navigant Consulting, Inc. The preliminary technical study results indicate that slight savings could be realized for the County's own facilities (as a proposed "phase-in" of CCA) and for the County's unincorporated area ratepayers. Many technical, economic and administrative issues must still be debated and resolved in the CPUC proceeding later this fall before a final recommendation can be considered.

If you have any questions, please contact me or have your staff contact ISD's Energy Management Division Manager, Howard Choy, at (323) 881-3939.

DL:HWC:lf
Attachment

c: Chief Administrative Officer
Each Department Head
County Counsel